



Ontario  
Energy  
Board | Commission  
de l'énergie  
de l'Ontario

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# DECISION AND RATE ORDER

## EB-2023-0051

### SIoux LOOKOUT HYDRO INC.

Application for rates and other charges to be effective  
May 1, 2024

BY DELEGATION, BEFORE: **Ceirán Bishop**  
Director  
Critical Initiatives

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Month XX, 2024

## 1. OVERVIEW

The Ontario Energy Board is approving changes to the rates that Sioux Lookout Hydro Inc. (Sioux Lookout Hydro) charges to distribute electricity to its customers, effective May 1, 2024.

As a result of this Decision, there will be a monthly total bill increase of \$2.48 for a residential customer consuming 750 kWh. This change does not factor in applicable taxes or the Ontario Electricity Rebate but includes impacts resulting from the Distribution Rate Protection program. The applicant is one of eight electricity distributors in Ontario to which this tax-funded program applies. The program has been in effect since July 2017, and currently caps monthly distribution charges at \$39.49.<sup>1</sup>

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<sup>1</sup> Decision and Order, EB-2023-0119, May 30, 2023

## 2. CONTEXT AND PROCESS

Sioux Lookout Hydro filed its application on November 17, 2023 under section 78 of the *Ontario Energy Board Act, 1998* and in accordance with Chapter 3 of the OEB's [Filing Requirements for Incentive Rate-Setting Applications](#) (Filing Requirements). The application was based on the Price Cap Incentive Rate-setting (Price Cap IR) option, with a five-year term.

The Price Cap IR option is one of three incentive rate-setting mechanisms (IRM) approved by the OEB.<sup>2</sup> It involves the setting of rates through a cost of service application in the first year and mechanistic price cap adjustments which may be approved through IRM applications in each of the ensuing adjustment years.

The OEB follows a standardized and streamlined process for processing IRM applications filed under Price Cap IR. In each adjustment year of a Price Cap IR term, the OEB prepares a Rate Generator Model that includes, as a placeholder, information from the distributor's past proceedings and annual reporting requirements. A distributor will then review, complete, and include the model with its application, and may update the model during the proceeding to make any necessary corrections or to incorporate new rate-setting parameters as they become available.

Sioux Lookout Hydro serves approximately 2,900 mostly residential and commercial electricity customers in the Municipality of Sioux Lookout.<sup>3</sup>

The application was supported by pre-filed written evidence and a completed Rate Generator Model and as required during the proceeding, Sioux Lookout Hydro updated and clarified the evidence.

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<sup>2</sup> Each of these options is explained in the OEB's [Handbook for Utility Rate Applications](#).

<sup>3</sup> EB-2022-0062 Decision and Order, March 23, 2023, p.2

### 3. DECISION OUTLINE

Each of the following issues is addressed in this Decision, together with the OEB's findings.

- Annual Adjustment Mechanism
- Shared Tax Adjustments
- Retail Transmission Service Rates
- Low Voltage Service Rates
- Group 1 Deferral and Variance Accounts

Instructions for implementing Sioux Lookout Hydro's new rates and charges are set out in the final section of this Decision.

This Decision does not address rates and charges approved by the OEB in prior proceedings, such as specific service charges<sup>4</sup> and loss factors, which are out of the scope of an IRM proceeding and for which no further approvals are required to continue to include them on the distributor's Tariff of Rates and Charges.

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<sup>4</sup> Certain service charges are subject to annual inflationary adjustments to be determined by the OEB through a generic order. For example, the Decision and Order EB-2023-0193, issued September 26, 2023, established the adjustment for energy retailer service charges, effective January 1, 2024; and the Decision and Order EB-2023-0194, issued September 26, 2023, established the 2024 Wireline Pole Attachment Charge, effective January 1, 2024.

## 4. ANNUAL ADJUSTMENT MECHANISM

Sioux Lookout Hydro has applied to change its rates, effective May 1, 2024, based on a mechanistic rate adjustment using the OEB-approved **inflation minus X-factor** formula applicable to IRM applications. The adjustment applies to distribution rates (fixed and variable) uniformly across all customer classes.<sup>5</sup>

The components of the Price Cap IR adjustment formula applicable to Sioux Lookout Hydro are set out in the table below. Inserting these components into the formula results in a 4.80% increase to Sioux Lookout Hydro's rates: **4.80% = 4.80% - (0.00% + 0.00%)**.

**Table 4.1: Price Cap IR Adjustment Formula**

Components		Amount
	Inflation factor <sup>6</sup>	4.80%
Less: X-factor	Productivity factor <sup>7</sup>	0.00%
	Stretch factor (0.00% to 0.60%) <sup>8</sup>	0.00%

An inflation factor of 4.80% applies to all IRM applications for the 2024 rate year. The X-factor is the sum of the productivity factor and the stretch factor. It is a productivity offset that varies among different groupings of distributors. Subtracting the X-factor from inflation ensures that rates decline in real, constant-dollar terms, providing distributors with a tangible incentive to improve efficiency or else experience declining net income. The productivity component of the X-factor is based on industry conditions over a historical study period and applies to all IRM applications for the 2024 rate year. The stretch factor component of the X-factor is one of five stretch factor groupings established by the OEB, ranging from 0.00% to 0.60%. The stretch factor assigned to any distributor is based on the distributor's total cost performance as benchmarked against other distributors in Ontario. The stretch factor assigned to Sioux Lookout Hydro is 0.00%, resulting in a rate adjustment of 4.80%.

<sup>5</sup> The adjustment does not apply to delivery rates: rate riders, rate adders, low voltage service charges, retail transmission service rates, wholesale market service rate, smart metering entity charges, rural or remote electricity rate protection charge, standard supply service – administrative charge, transformation and primary metering allowances, loss factors, specific service charges (other than the Wireline Pole Attachment charge), and the microFIT charge.

<sup>6</sup> [OEB Letter, 2024 Inflation Parameters, issued June 29, 2023](#)

<sup>7</sup> Report of the Ontario Energy Board – “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” EB-2010-0379, December 4, 2013

<sup>8</sup> Report to the Ontario Energy Board – “Empirical Research in Support of Incentive Rate-Setting: 2022 Benchmarking Update”, prepared by Pacific Economics Group LLC., July 2023

## Findings

Sioux Lookout Hydro's request for a 4.80% rate adjustment is in accordance with the annually updated parameters set by the OEB. The adjustment is approved, and Sioux Lookout Hydro's new rates shall be effective May 1, 2024.

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## 5. SHARED TAX ADJUSTMENTS

In any adjustment year of an IRM term, a change in legislation may result in a change to the amount of taxes payable by a distributor. The impacts of such legislated tax changes are shared equally between shareholders and customers.<sup>9 10</sup> The shared tax change amount, whether in the form of a credit or a debit, will be assigned to customer rate classes in the same proportions as the OEB-approved distribution revenue by rate class from the distributor's last cost of service proceeding.

The application identifies a total tax decrease of \$4,897, resulting in a shared amount of \$2,448 to be refunded to ratepayers.

This allocated tax sharing amount does not produce a rate rider to the fourth decimal place, in one or more rate classes. In such situations where the Rate Generator Model does not compute rate riders, distributors are required to transfer the entire OEB-approved tax-sharing amount into the Disposition and Recovery of Regulatory Balances Control Account (Account 1595) for disposition at a later date.

### Findings

The OEB approves the tax-sharing refund of \$2,448.

As the allocated tax sharing amount does not produce a rate rider in one or more rate classes, the OEB directs Sioux Lookout Hydro to record the credit amount of \$2,448 into Account 1595 (2024).

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<sup>9</sup> On July 25, 2019, the OEB issued a [letter](#) providing accounting guidance with respect to changes in capital cost allowance (CCA) rules. The guidance provides that impacts from changes in CCA rules will not be assessed in IRM proceedings, and that any request for disposition of amounts related to CCA changes is to be deferred to the distributor's next cost of service rate proceeding. A distributor's request for disposition of shared tax adjustment amounts in an IRM application should, therefore, be comprised only of impacts for tax changes unrelated to CCA.

<sup>10</sup> Chapter 3 Filing Requirements, section 3.2.8, notes that the Rate Generator Model reflects the change in the Small Business Deduction phase-out for 2024 rates.

## 6. RETAIL TRANSMISSION SERVICE RATES (RTSRs)

Sioux Lookout Hydro is fully embedded within Hydro One Networks Inc.'s distribution system.

To recover its cost of transmission services, Sioux Lookout Hydro requests approval to adjust the RTSRs that it charges its customers in accordance with the host distributor RTSRs currently in effect.

### Findings

Sioux Lookout Hydro's proposed adjustment to its RTSRs is approved.

The RTSRs have been adjusted based on the current OEB-approved host-RTSRs.<sup>11</sup>

UTRs and host-RTSRs are typically approved annually by the OEB. In the event that the OEB updates the approved UTRs and host-RTSRs during Sioux Lookout Hydro's 2024 rate year, any resulting differences (from the prior-approved UTRs and host-RTSRs) will be captured in Retail Settlement Variance Accounts 1584 (Retail Transmission Network Charge) and 1586 (Retail Transmission Connection Charge).

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<sup>11</sup> EB-2023-0030, Partial Decision and Rate Order, December 14, 2023



## 7. LOW VOLTAGE SERVICE RATES

Sioux Lookout Hydro is fully embedded within Hydro One Networks Inc.'s distribution system.

As it does with all of its customers, a host distributor charges an embedded distributor for delivery services associated with conveying energy over the host distribution network.. To recover the cost of the low voltage services it receives, Sioux Lookout Hydro requests approval to adjust its Low Voltage Service Rates (LV Service Rates) that it charges its customers as part of this IRM application. The adjusted LV Service Rates are based on the current OEB-approved host distributor sub-transmission rates and the most recent demand data for low voltage transactions.

### Findings

Sioux Lookout Hydro's proposed adjustment to its LV Service Rates is approved. The LV Service Rates have been updated based on the current OEB-approved host distributor's sub-transmission rates. In the event that the OEB updates the approved distributor sub-transmission rates during Sioux Lookout Hydro's 2024 rate year, any resulting differences are to be captured in Account 1550 LV Variance Account.

## 8. GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS

In each year of an IRM term, the OEB will review a distributor's Group 1 deferral and variance accounts to determine whether those balances should be disposed of. OEB policy states that Group 1 account balances should be disposed of if they exceed, on a net basis (as a debit or credit), a pre-set disposition threshold of \$0.001 per kWh, unless a distributor justifies why balances should not be disposed of.<sup>12</sup> If the net balance does not exceed the threshold, a distributor may still request disposition.<sup>13</sup>

The 2022 year-end net balance for Sioux Lookout Hydro's Group 1 accounts eligible for disposition, including interest projected to April 30, 2024, is a debit of \$167,396, and pertains to variances accumulated during the 2022 calendar year. This amount represents a total claim of \$0.002 per kWh, which exceeds the disposition threshold. Sioux Lookout Hydro has requested disposition of this amount over a one-year period.

Sioux Lookout Hydro has applied to have the balance of the CBR Class B account disposed of along with Account 1580 – Wholesale Market Service Charge through the general Deferral and Variance Account rate rider. It does not serve any Class A customers.

### Findings

The balances proposed for disposition reconcile with the amounts reported as part of the OEB's *Electricity Reporting and Record-Keeping Requirements*.

The OEB approves the disposition of a debit balance of \$167,396 as of December 31, 2022, including interest projected to April 30, 2024, for Group 1 accounts on a final basis.

Table 8.1 identifies the principal and interest amounts, which the OEB approves for disposition.

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<sup>12</sup> Report of the OEB – “Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR).” EB-2008-0046, July 31, 2009

<sup>13</sup> OEB letter, “Update to the Electricity Distributors’ Deferral and Variance Account Review (“EDDVAR Report”), released July 2009 (EB-2008-0246)”, issued July 25, 2014

Table 8.1: Group 1 Deferral and Variance Account Balances

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	82,833	6,513	89,346
Smart Metering Entity Charge Variance Account	1551	(7,989)	(606)	(8,595)
Variance WMS - Sub-account CBR Class B*	1580	(927)	(63)	(990)
RSVA - Retail Transmission Network Charge	1584	50,976	4,266	55,242
RSVA - Retail Transmission Connection Charge	1586	(12,790)	(1,079)	(13,869)
RSVA - Power	1588	(13,082)	(1,436)	(14,518)
RSVA - Global Adjustment	1589	15,705	3,040	18,745
Disposition and Recovery/Refund of Regulatory Balances (2019)	1595	28,487	13,548	42,035
<b>Total for Group 1 accounts</b>		\$143,213	\$24,183	\$167,396

\*CBR Class B line represents the total of WMS and CBR Class B.

The balance of each of the Group 1 accounts approved for disposition shall be transferred to the applicable principal and carrying charge sub-accounts of Account 1595. Such transfer shall be pursuant to the requirements specified in the *Accounting Procedures Handbook for Electricity Distributors*.<sup>14</sup> The date of the transfer must be the same as the effective date for the associated rates, which is generally the start of the rate year.

The OEB approves these balances to be disposed of through final rate riders, charges, or payments, as calculated in the Rate Generator Model. The final rate riders, charges,

<sup>14</sup> Article 220, Account Descriptions, Accounting Procedures Handbook for Electricity Distributors, effective January 1, 2012

and payments, as applicable, will be in effect over a one-year period from May 1, 2024, to April 30, 2025.<sup>15</sup>

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<sup>15</sup> 2024 IRM Rate Generator Model Tab 6.1 GA, Tab 6.1a GA Allocation, Tab 6.2 CBR B, Tab 6.2a CBR B Allocation and Tab 7 Calculation of Def-Var RR

## 9. IMPLEMENTATION

This Decision is accompanied by a Rate Generator Model, applicable supporting models, and a Tariff of Rates and Charges (Schedule A). The Rate Generator Model also incorporates the rates set out in Table 9.1.

**Table 9.1: Regulatory Charges**

Rate	per kWh
Rural or Remote Electricity Rate Protection (RRRP)	\$0.0014
Wholesale Market Service (WMS) billed to Class A and B Customers	\$0.0041
Capacity Based Recovery (CBR) billed to Class B Customers	\$0.0004

Each of these rates is a component of the “Regulatory Charge” on a customer’s bill, established annually by the OEB through a separate, generic order. The RRRP and WMS rates were set by the OEB on December 7, 2023.<sup>16</sup>

The Smart Metering Entity Charge is a component of the “Distribution Charge” on a customer’s bill, established by the OEB through a separate order. The Smart Metering Entity Charge was set by the OEB at \$0.42 on September 8, 2022.<sup>17</sup>

In the *Report of the Board: Review of Electricity Distribution Cost Allocation Policy*,<sup>18</sup> the OEB indicated that it will review the default province-wide microFIT charge annually to ensure it continues to reflect actual costs in accordance with the established methodology. On November 29, 2023, the OEB issued a letter advising electricity distributors that the microFIT charge shall remain at \$4.55 for the duration of the 2024 rate year (May 1, 2024 to April 30, 2025).<sup>19</sup>

<sup>16</sup> EB-2023-0268, Decision and Order, December 7, 2023

<sup>17</sup> EB-2022-0137, Decision and Order, September 8, 2022

<sup>18</sup> EB-2010-0219, Report of the Board “Review of Electricity Distribution Cost Allocation Policy”, March 31, 2011

<sup>19</sup> OEB Letter, “Review of Fixed Monthly Charge for microFIT Generator Service Classification”, issued November 29, 2023

## 10. ORDER

### THE ONTARIO ENERGY BOARD ORDERS THAT

1. The Tariff of Rates and Charges set out in Schedule A of this Decision and Rate Order is approved effective May 1, 2024, for electricity consumed or estimated to have been consumed on and after such date. Sioux Lookout Hydro Inc. shall notify its customers of the rate changes no later than the delivery of the first bill reflecting the new rates.

**DATED** at Toronto, Month Date, 2024

**ONTARIO ENERGY BOARD**

Nancy Marconi  
Registrar

**SCHEDULE A**  
**DECISION AND RATE ORDER**  
**SIOUX LOOKOUT HYDRO INC.**  
**TARIFF OF RATES AND CHARGES**  
**EB-2023-0051**  
**MONTH XX, 2024**